

Message Text

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PAGE 01 BELGRA 06700 131005Z
ACTION EB-08

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 7924

INFO AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMCONSUL FRANKFURT

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY WARSAW

LIMITED OFFICIAL USE BELGRADE 6700

E. O. 11652: N/A

TAGS: EAIR, YO

SUBJ: SUSPENSION OF PAN AM SERVICE TO BELGRADE

REF: (A) STATE 226048, (B) BELGRADE 6562

SUMMARY: LOCAL PAN AM MANAGEMENT DISPUTES AIRLINE CLAIM THAT BELGRADE ROUTE UNPROFITABLE OR THAT U.S. AIRLINE SUFFERS COMPETITIVE DISADVANTAGE FROM STATE-CONTROLLED SERVICE. YUGOSLAVS NOW HAVE STRONG INCENTIVE TO EXPAND JAT SERVICE TO U.S. END SUMMARY

1. CIVAIROFF DISCUSSED ANNOUNCED SUSPENSION OF AIR SERVICE TO BELGRADE WITH DJORDJE LAZIC, ASSISTANT MANAGER OF PAN AM'S OFFICE HERE. MANAGER CURRENTLY MEETING WITH AIRLINE MANAGEMENT IN NEW YORK. ALTHOUGH HE HAD HEARD RUMORS OF SERVICE CUTBACKS LAST SUMMER IN NEW YORK, LAZIC FINDS PAN AM'S FINANCIAL RATIONALE HARD TO BELIEVE. ACCORDING TO HIM, AIRLINE MADE OVER MILION DOLLARS' PROFIT FROM YUGOSLAV MARKET DURING LIMITED OFFICIAL USE

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FIRST SIX MONTHS OF 1978. MOREOVER, RATION OF OPERATING COSTS TO REVENUE IS LOWEST OF ANY PAN AM'S EUROPEAN STATIONS (6.6 PERCENT AS COMPARED TO AIRLINE'S AVERAGE OF 29 PERCENT).

2. LAZIC CONFIRMED EMBASSY'S IMPRESSION (REPORTED IN REFTEL B) THAT SCHEDULED FLIGHTS WERE BOOKED SOLD AT LEAST SIX WEEKS IN ADVANCE DURING JULY AND AUGUST. RIGHT NOW, PAN AM HAS NO

AVAILABLE SEATS ON DEPARTURES TO FRANKFURT UNTIL AFTER OCT 1. LAZIC SAYS BUSINESS IN YUGOSLAVIA IS BY NO MEANS SEASONAL, AS RESERVATIONS ALREADY ACCEPTED WELL INTO DECEMBER. HE ADMITTED 1978 WAS BUMPER YEAR FOR BELGRADE OFFICE, BUT THIS SEEMS TO REFLECT SIGNIFICANT UP-TURN EXPERIENCED BY ALL AIRLINES AFTER OIL-CRISIS SLUMP OF MID-1970'S. IN SUM, LAZIC SAYS BELGRADE STAFF DOES LITTLE MARKETING IN YUGOSLAVIA -- THE CUSTOMERS ARE FAR MORE THAN THEY CAN HANDLE WITH AVAILABLE CAPACITIES.

3. CIVAIROFF NOTED THAT PAN AM'S PUBLIC ANNOUNCEMENT ALLUDED TO DIFFICULTIES MEETING COMPETITION FROM STATE-CONTROLLED AIRLINES AND UNSATISFACTORY TICKETING ARRANGEMENTS. THE BELGRADE OFFICE HAS HAD OCCASIONAL PROBLEMS WITH JAT OVER THE YEARS BOTH IN PASSENGER TICKETING AND CARGO HANDLING AT THE AIRPORT. LAZIC ADMITTED THIS BUT CLAIMED PAN AM COULD EASILY LIVE WITH ITS JAT RELATIONSHIP. COMPLAINTS WERE MINIMAL AND CERTAINLY NOT AFFECTING PAN AM'S OPERATING REVENUE. HE BROUGHT UP ONE EXAMPLE OF DISCRIMINATION AGAINST PAN AM SERVICE: YUGOSLAV EXPORTERS RECEIVE A 25 PERCENT REBATE IF THEY SHIP ON JAT. DESPITE THIS DISADVANTAGE, LAZIC SAYS PAN AM CARGO SERVICE OUT OF BELGRADE IS PROFITABLE.

4. DISCUSSING POST-SUSPENSION OPERATIONS, LAZIC SAID PAN AM WOULD MAINTAIN AN OFF-LINE OFFICE IN BELGRADE WITH A SMALL REDUCTION IN CURRENT STAFF. HE ANTICIPATED AN ACTIVE CHARTER SCHEDULE (ABOUT 50 FLIGHTS THROUGH BELGRADE LAST YEAR). PAN LIMITED OFFICIAL USE

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AM WILL PROBABLY HAVE TO RE-NEGOTIATE ITS TICKETING ARRANGEMENT WITH JAT TO PROVIDE AN INTERLINE PERCENTAGE TO JAT FOR THE FRANKFURT-BELGRADE PORTION OF AN EXCURSION TICKET. LAZIC DOES NOT EXPECT PROBLEMS WITH OBTAINING A MUTUALLY SATISFACTORY AGREEMENT.

5. COMMENT: PAN AM'S YUGOSLAV EMPLOYEES HAVE SURVIVED AT LEAST ONE PREVIOUS SERVICE SUSPENSION AND ARE SOMEWHAT OPTIMISTIC THAT FLIGHTS MAY BE RESUMED IN THE FUTURE. EMBASSY HOPES, HOWEVER, THAT PAN AM'S BUSINESS RELATIONSHIP WITH JAT DOES NOT DETERIORATE WITH THE TERMINATION OF SCHEDULED SERVICE. WE FULLY EXPECT, MOREOVER, AN EVENTUAL APPROACH FROM YUGOSLAV CIVIL AUTHORITIES ABOUT INCREASING THE FREQUENCY OF JAT SCHEDULED FLIGHTS TO THE U.S. AS WELL AS THE QUESTION OF ADDITIONAL U.S. GATEWAYS. AS DEPT AWARE, THESE WERE KEY ISSUES IN RECENT GOY-U.S. AIR BILATERAL NEGOTIATIONS. JAT TAKES POSSESSION OF TWO DC-10'S WITHIN NEXT SIX MONTHS WITH PROSPECTS OF LOSING ITS WIDE-BODIED TRAFFIC RIGHTS ON LONG-DISTANCE ROUTE TO AUSTRALIA. WITH CLEAR SIGHTS ON AMERICAN AS ITS FUTURE GROWTH MARKET, JAT CAN HARDLY AVOID EXPLOITING PAN AM'S FORFEITURE OF BELGRADE-U.S. TRAFFIC. EAGLEBURGER

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